

Legislative Fiscal Bureau

Fiscal Note

HF 576 - Enterprise Zones (LSB 1262 HV)

Analyst: Russell Trimble (Phone: (515) 281-4613) (russ.trimble@legis.state.ia.us)

Fiscal Note Version — New

Description

House File 576 amends the Enterprise Zone Program allowing for the following significant changes:

- Current zone boundaries will be allowed to be amended provided that the area being incorporated in the zone meets all the criteria on its own.
- An existing zone or portion of a zone that is unutilized will be allowed to be decertified to make room under the 1.0% cap for a subsequent zone provided that decertifying the portion of the zone does not invalidate the remaining portion of the zone. Amending a zone will have no impact on the original expiration date of the zone.
- The July 1, 2003 sunset date for counties that qualified under the 1990 census distress criteria is extended to December 1, 2003, to allow counties to make the changes to the zones.
- A lease will no longer be required for a development business to apply for benefits, however, the lease would still be required in order to receive benefits.
- The Bill provides the Department of Economic Development with some recourse when a business approved for tax incentives and assistance experiences a layoff or closes a facility within Iowa.

Assumptions

1. Amending enterprise zone boundaries will result in greater utilization of the Program.
2. Counties are allowed to designate up to 1.0% of the land area of the county as an enterprise zone. Counties that are not nearing the 1.0% cap will not contribute to the fiscal impact of the proposed legislation. This is due to the fact that they still have space under current law to create more zones if need be. The impact will result from a county that is close to or at the 1.0% cap. If these counties amend a zone due to underutilization, the amended zone would most likely result in additional projects.
3. Cities are allowed to designate up to 1.0% of the city as an enterprise zone but must also meet certain distress criteria. Cities will not likely contribute to the fiscal impact due to the fact that according to the Department of Economic Development the cities that are close to the 1.0% cap (Cedar Rapids, Davenport, Des Moines, Fort Dodge, Ottumwa, Sioux City, and Waterloo) do not have a lot of remaining areas that would qualify.
4. The following counties are close to the 1.0% cap: Adams, Cass, Freemont, and Guthrie. In the last five years, Adams County has had one business project, Cass County has had one housing project, Freemont County has had one business project, and Guthrie County has had two business projects.
5. The four counties will add the same number and type of projects over the next five years that they did over the last five years resulting in four new business projects and one new housing project.
6. Each project will receive a 10.0% investment tax credit. The average enterprise zone business project investment is approximately \$9.5 million per project. The average enterprise zone housing project is \$1.7 million per project. Each business project will, therefore, result in an average tax credit of \$950,000, and each housing project will result in an average tax credit of \$170,000.

7. It will take an average of two years to amend and establish a new zone, submit an application for benefits, and start a new project. Therefore, the fiscal impact of this legislation will not be realized until FY 2006.
8. All tax credits available will be utilized over a five- to ten-year period starting in FY 2006.

Fiscal Impact

House File 576 would reduce General Fund revenues by approximately \$4.0 million over a period of five to ten years starting in FY 2006.

Sources

Iowa Department of Economic Development
Iowa Department of Revenue and Finance

/s/ Dennis C Prouty

March 24, 2003

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.
